IMPACT OF US DEPT OF TREASURY & IRS NEW TAX RULES
ON INDIVIDUAL DONORS (who itemize deductions on their federal tax return)

Individual donors who receive an Indiana state tax credit in return for a contribution to IQE **and** who also claim a federal tax deduction for that charitable contribution will be impacted by recent rulings of the U.S. Department of Treasury and the IRS. Effective August 28, 2018, individuals can only claim a federal charitable tax deduction (section 170) for the portion of a charitable contribution to IQE that is not already offset by an Indiana state tax credit.

For example, an IQE donor will receive an Indiana state tax credit of 50% of the donor's contribution. Therefore, a donor giving $12,000 to IQE will receive a $6000 Indiana state tax credit.

Today, after the U.S. Dept of Treasury's adoption of new rules, an individual donor may receive a federal charitable tax deduction (under section 170) for that portion of the charitable contribution for which the donor did not receive a state tax credit; in this case, the donor can claim a $6000 federal charitable tax deduction (section 170).

In addition to this rule change, the U.S. Dept of Treasury has announced a new proposed rule and a "safe harbor" provision for individual donors. "Safe harbor" means that taxpayers can rely on the proposed rule for contributions they give today, even though final adoption of the new rule will not happen until later this year.

The new proposed rule primarily benefits those donors whose Indiana state and local taxes are less than $10,000. Under the new tax code adopted by Congress in 2017 and amended in 2018, a person can no longer claim a federal tax deduction for all state and local taxes paid; now there is a cap – a person can only receive up to a $10,000 federal tax deduction for state and local taxes (federal tax code section 164).

A donor to IQE whose state and local taxes are less than $10,000 may claim a federal state and local tax deduction (section 164) for that portion of the contribution to IQE that can no longer be deducted as a charitable contribution (section 170); this means that the contribution that earned an Indiana state tax credit can be counted as a payment of state and local taxes (section 164).

Under our scenario above, the IQE donor who received a $6000 Indiana state tax credit can count part or all of that $6000 to claim a federal, state and local tax deduction (section 164) – up to the $10,000 federal cap.

To summarize this example, an individual donor who gives $12,000 to IQE will receive a $6000 Indiana state tax credit and a $6000 federal charitable tax deduction. If the donor's Indiana state and local taxes are less than $10,000, the donor may claim up to $6000 of the state tax credited IQE contribution to receive a federal state and local tax deduction up to $10,000.

Here is an illustrated example of our $12,000 donor scenario above.

IQE receives a $12,000 contribution to fund scholarships for kids.

When an individual donor completes their tax returns for the state government and for the federal government, the donor may claim:

INDIANA	FEDERAL
$6000 state tax <u>credit</u>	$6000 federal charitable tax <u>deduction</u> (section 170)
	May count up to $6000 to claim a federal state and local tax deduction (section 164), up to the federal cap of $10,000

This means that a donor who has $8000 in state and local taxes may claim $2000 of the $6000 (50% of the contribution that earned a state tax credit) to bring the donor's total federal state and local tax deduction to $10,000.

If the donor's state and local taxes exceed $10,000, there is no additional benefit.

US DEPT OF TREASURY & IRS NEW TAX RULES
IMPACT ON CORPORATE AND PASS-THROUGH ENTITY DONORS TO IQE

"C" corporations may continue to contribute to IQE, and may claim those contributions as business expenses, under the usual rules. The IRS states, "Section 162(a) allows a deduction for all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business." There is no change in federal tax business expense rules under section 162, including for contributions that earn an Indiana state tax credit for the business donor. This also applies to pass-through entities that are taxed at the business level.

Always consult your tax advisor before making any charitable gifts.